

City of Eastpointe, Michigan Employees' Retirement System

**Financial Report
with Supplemental Information
June 30, 2003**

City of Eastpointe, Michigan Employees' Retirement System

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Independent Auditor's Report

To the Board of Trustees
City of Eastpointe, Michigan
Employees' Retirement System

We have audited the accompanying basic financial statements of the City of Eastpointe, Michigan Employees' Retirement System (a component unit of the City of Eastpointe, Michigan) as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of the City of Eastpointe, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the plan net assets of the City of Eastpointe, Michigan Employees' Retirement System at June 30, 2003 and the changes in plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying schedules of funding progress and employer contributions, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

The City of Eastpointe, Michigan Employees' Retirement System has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

October 20, 2003



A worldwide association of independent accounting firms

City of Eastpointe, Michigan Employees' Retirement System

Statement of Plan Net Assets June 30, 2003

Assets

Cash and cash equivalents (Note 5)	\$ 12,700,965
Investments (Note 5):	
U.S. government securities	4,470,444
Corporate bonds and other securities	4,229,961
Corporate stock	<u>24,461,715</u>
 Total investments	 <u>33,162,120</u>
 Total assets	 45,863,085

Liabilities - Accounts payable	<u>51,516</u>
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Net Assets Held in Trust for Pension Benefits (See schedule of funding progress on page 8)	<u><u>\$ 45,811,569</u></u>
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City of Eastpointe, Michigan

Employees' Retirement System

Statement of Changes in Plan Net Assets Year Ended June 30, 2003

Additions - Investment income

Net depreciation in fair value of investments	\$ (136,609)
Interest and dividends	1,423,058
Less investment expenses	<u>(245,292)</u>

Total additions 1,041,157

Deductions

Pension benefits	2,801,664
Administrative expenses	<u>8,397</u>

Total deductions 2,810,061

Net Decrease in Plan Net Assets (1,768,904)

Net Assets Held in Trust for Pension Benefits - July 1, 2002 47,580,473

Net Assets Held in Trust for Pension Benefits - June 30, 2003 **\$ 45,811,569**

City of Eastpointe, Michigan Employees' Retirement System

Notes to Financial Statements June 30, 2003

Note 1 - Summary of Significant Accounting Policies

The City of Eastpointe, Michigan Employees' Retirement System (the "System") is the administrator of a single-employer public employees' retirement system that covers all full-time employees of the City of Eastpointe. The System's financial statements are also included in the basic financial statements of the City of Eastpointe as a Pension and Other Employee Benefit Trust Fund. Management has elected not to present a management's discussion and analysis in the financial report.

Basis of Accounting - The System uses the accrual method of accounting. Employer contributions to the System are recognized when due and the employer has made a formal commitment to provide the contributions. Benefit payments and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price.

Note 2 - Plan Description

The System provides retirement, death, and health care benefits to plan members and their beneficiaries. At June 30, 2002, the date of the most recent actuarial valuation, membership consisted of 167 retirees and beneficiaries receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 165 current active employees. The obligation to contribute to and maintain the System was established by negotiation with the City's collective bargaining units.

Note 3 - Contributions

The funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are intended to accumulate sufficient assets to pay pension benefits when due. System members are not required to contribute. Administrative costs of the plan are financed through investment earnings.

Note 4 - Reserves

At June 30, 2003, the System's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 607,636
Reserve for retired benefit payments	33,908,844

City of Eastpointe, Michigan

Employees' Retirement System

Notes to Financial Statements June 30, 2003

Note 5 - Deposits and Investments

The System's deposits and investments at June 30, 2003 are included on the balance sheet under the following classifications:

Cash and cash equivalents	\$ 12,700,965
Investments	<u>-</u>
Total	<u>\$ 12,700,965</u>

The above amounts are classified by Governmental Accounting Standards Board Statement Number 3 in the following categories:

Bank deposits (checking accounts)	\$ (32,244,414)
Investments in securities, mutual funds, and similar vehicles	<u>44,945,379</u>
Total	<u>\$ 12,700,965</u>

Deposits - The System's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$959,000. This amount was uninsured and uncollateralized at June 30, 2003.

The System believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the System evaluates each financial institution with which it deposits System funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments - The System is authorized by Michigan Public Act 485 of 1996, as amended, to invest in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers' acceptances and mutual funds, investment pools that are composed of authorized investment vehicles, certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, debt or equity of certain small businesses, certain State and local government obligations, and certain other specified investment vehicles. At June 30, 2003, there were no investments in any one organization (other than the U.S. government) in excess of 5 percent of net assets available for benefits.

City of Eastpointe, Michigan

Employees' Retirement System

Notes to Financial Statements June 30, 2003

Note 5 - Deposits and Investments (Continued)

The System's investments are categorized in the financial statements to give an indication of the level of risk assumed by the entity at June 30, 2003. Category 1 includes investments that are insured or registered or for which the securities are held by the System or its agent in the System's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the System's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the System's name.

The System's investments at June 30, 2003 were classified as follows:

	Category			Carrying Amount (Fair Value)
	1	2	3	
U.S. government securities	\$ -	\$ -	\$ 4,470,444	\$ 4,470,444
Corporate bonds and other securities	-	-	4,229,961	4,229,961
Corporate stock	-	-	24,461,715	24,461,715
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 33,162,120</u>	33,162,120
Mutual funds				<u>11,783,259</u>
Total investments				<u>\$ 44,945,379</u>

The mutual funds are registered with the SEC and are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments of the System comply with the investment authority noted above.

Included in the System's investments at June 30, 2003 are the following:

- Approximately \$2,704,000 of securities issued by the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC). The FNMA and FHLMC investments are backed only by the applicable government agency. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

City of Eastpointe, Michigan Employees' Retirement System

**Notes to Financial Statements
June 30, 2003**

Note 6 - Risk Management

The System's exposure to risk of loss, other than investment market loss, is minimal. Exposure is limited primarily to errors and omissions. The System manages risk by participating with the City of Eastpointe in the Michigan Municipal Risk Management Authority risk pool.

Supplemental Information

City of Eastpointe, Michigan

Employees' Retirement System

Required Supplemental Information Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) AAL	Funded Ratio (Percent)	Covered Payroll	Unfunded (Overfunded) AAL as a Percentage of Covered Payroll
06/30/97*	\$ 38,091,015	\$ 39,648,271	\$ 1,557,256	96	\$ 6,621,146	24
06/30/98	42,343,648	41,285,899	(1,057,749)	103	7,349,099	(14)
06/30/99*	51,377,333	39,535,364	(11,841,969)	130	7,845,331	(151)
06/30/00**	55,708,876	41,289,971	(14,418,905)	135	8,455,767	(171)
06/30/01	58,294,299	42,719,710	(15,574,589)	136	8,484,620	(184)
06/30/02*	58,305,372	45,584,633	(12,720,739)	128	9,030,827	(141)

* Includes changes in actuarial assumptions

** Includes changes in benefit provisions

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of June 30, 2002, the latest actuarial valuation, is as follows:

Valuation date	June 30, 2002
Actuarial cost method	Individual entry age
Amortization method	Level percent open
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8%*
Projected salary increase	4%-7%*
* Includes inflation at	4%
Cost-of-living adjustments	None

City of Eastpointe, Michigan

Employees' Retirement System

Required Supplemental Information Schedule of Employer Contributions

Year Ended <u>June 30</u>	Annual Required <u>Contribution</u>	Percent <u>Contributed</u>
1998	\$ 1,161,442	100
1999	994,664	100
2000	-	100
2001	-	100
2002	10,978	-
2003	174,637	-

The above contributions are for pension benefits only and do not include amounts contributed for health care coverage. Amounts contributed for health care coverage are recorded in the City's Retiree Health Care Fund, which was established during the City's year ended June 30, 2000.